



**UNIVERSITI PUTRA MALAYSIA**

**CASE STUDY  
PAB UNIT TRUST MANAGEMENT BERHAD**

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**BY**

**AHMAD FATHI BIN HJ. MOHD. NOOR**

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**CASE STUDY:**  
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## **Pengesahan Keaslian Laporan**

**Dengan ini, saya AHMAD FATHI BIN HJ. MOHD. NOOR, Nombor Matrik 51238, pelajar program MBA mengaku bahawa kertas projek / kajian kes untuk kursus ini adalah hasil usaha asal saya sendiri.**



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**TO**

***My wife:                      Zaleha Selamat***

***My son:                      Mohamad Adib***

***My daughter:              Siti Hajar***

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**FACTS OF THE CASE**  
**PAB UNIT TRUST MANAGEMENT BERHAD**



## **The Meeting**

The Board of Directors meeting was held on Friday 23 January 1998. The company Acting Chief Executive Officer – Brig. Jen. (b) Abdullah Omar received stern directives and that worried him a lot. On Monday 2 February 1998, he called all heads of departments for a weekly morning meeting.

At the meeting he handed out a copy of a letter sent by an investor who addressed to all four directors of the company. The writer complained on why the management paid a low dividend in 1997. Overall, the main issue addressed in the letter was the confidant that he has on the management of the fund. En. Najib Hussin: “We are not a big player. We are vulnerable to the market force. There is nothing much I could do. It all depends on the Acting Chief Executive Officer and investment committee members. I follow instruction. If market is good .... we are good, if not ... what more to say. In fact I am waiting for the coming Investment Committee meeting because a lot of issues and recommendations I want to address. I hope next month market won’t change so much and the committee can give directions to me in time.” Julia Aini Harun: “At least there could be a way and something you could do. I have received so much complaints on our performance. One of our corporate customers Bank Pertanian (M) Berhad wanted to redeem in 1996 but I managed to ask them to hold. At that time the selling price was RM0.90, now look what happen, the price now is RM0.50 ..... and they are really up set with me.” Tan Wei Kuan: “I think the issue here is not who to blame

but actually what have you done to at least maintain the price. En Najib ..... at least you could briefly state your plan so that our sales people have confidence to approach prospect customers. The environment factor changes very fast even as we speak now.”

The Acting Chief Executive Officer interrupted when the atmosphere getting tense. He acknowledged that something was needed to be done now and fast. He acknowledges that he will put up a few proposals for investment committee which will be held at end of next month.

After the meeting Zurina Ismail called the Securities Commission regarding the application for new fund Tabung Islam PAB. It has been quite a long time the application was submitted to the Securities Commission. At first it was rejected. The first application was submitted in late 1995 a few months after YM Raja Amir (former Head of Investment) left the company. Subsequent applications were put through but no approval has been granted. The Securities Commission rejected the applications on the ground that no full-time investment manager, besides the CEO, was appointed to run a new fund. It also gave concern on the adequacy of manpower in marketing and investment departments. Up until now no one follows up on the matter.

At about 4.30 PM on Monday 2 February 1998, Brig. Jen. (b) Abdullah Omar received a call from Pandan Indah branch. The branch manager informs him that a corporate customer wanted to redeem all its investment in PAB Saham PHB worth RM1,500,000.00 today. He also stated that the company would appreciate if he can get the money by coming Wednesday.

### **The Acting Chief Executive Officer**

Brig. Jen. (b) Abdullah Omar was appointed as the Acting Chief Executive Officer of the company in October 1997 to replace En. Wan Ali Wan Abdullah. When Brig. Jen. (b) Abdullah Omar took the Acting Chief Executive Officer seat, PAB Saham PHB recorded an unrealized loss of RM20 million out of RM90 million invested in KLSE. He opted for early retirement from Malaysia Royal Air Force in late 1995 and then became a remiser at Arab Malaysian Securities Sdn Bhd.

The appointment of Brig. Jen. (b) Abdullah Omar as a senior manager in 1996 received some critiques from investors especially those from military establishment. Lt. Colonel “Bunny” Chua said that “ I think it is inappropriate for the bank to appoint such a person with a year of experience as a remiser to subsequently handle millions of Ringgit worth of investment..... I am not against him personally but ..... just imagine he was a commander of royal air force for so long and upon retirement he is going to handle public fund .... don’t you think that

it is a very big switch in his career, and I can imagine job specifications would be totally different between an air force commander and a fund manager.”

Different from previous CEO, Brig. Jen (B) Abdullah Omar practices close-door management style; for example he will not entertain a clerical staff request unless the staff gets to his/her respective heads of department first. Only staff immediately below the line of authority (below him) can directly contact him. This protocol is expected to be observed for most of the time.

Apart from experience in air force and short engagement in security company, Brig. Jen. (b) Abdullah Omar has no experience in managing a company providing financial services. He decided on marketing strategies and product development - i.e. FD Plus product where Affin Finance is given 4% of total deposit outright, promotion is completely abandon to cut costs and does not actively participate in unit trust company association's (FMUTM) activities.

Acting CEO - Brig. Jen. (b) Abdullah Omar was appointed on a yearly contract basis. He was brought to the Perwira Affin Bank Berhad in March 1995 as a Senior Manager but was later on secondment to PAB Unit Trust Management Berhad and report to then Chief Executive Officer - Wan Ali Wan Abdullah. According to Brig. Jen. (b) Abdullah Omar, he was seconded to the company to study its operations with a view to replace the CEO in October 1995. However,

according to the HR manager, the bank has no plan to appoint him as a new CEO for PAB Unit Trust Management Berhad. The relationship between Brig. Jen. (b) Abdullah Omar and Wan Ali Wan Abdullah gets tense when in 1996, the contract for Wan Ali Wan Abdullah as CEO was continued. At last, contract for Wan Ali Wan Abdullah was terminated in October 1996 and the board needs to find a replacement. YM Raja Aman Ahmad interviewed 6 short-listed candidates for the CEO post but none accept the compensation package offered by the bank. At the end, after Securities Commission requires the company to submit name of its CEO, the board proposed that Brig. Jen. (b) Abdullah Omar is named as Acting CEO backdated to day since Wan Ali Wan Abdullah vacate the post. The HR manager stated that he was unsure whether to make Brig. Jen. (b) Abdullah Omar full CEO because all decisions would come from YM Raja Dato' Aman Ahmad.

## **Background of The Company**

PAB Unit Trust Management Berhad was incorporated on 29 April 1992 as a public company under the name of PHB Unit Trust Management Berhad (subsequently changed to PAB Unit Trust Management Berhad on 15 August 1994). The company is a wholly owned subsidiary of Perwira Affin Bank Berhad, a licensed bank incorporated in Malaysia and the ultimate holding corporation is Lembaga Tabung Angkatan Tentera, a local statutory body established under the Tabung Angkatan Tentera Act 1973. As at 30 September 1997, the company's

authorized share capital is RM10,000,000 and the issued and fully paid share capital is RM3,000,000.

The principal business of the company is the management of unit trust. The company launched the Amanah Saham PHB on 29 April 1993 under the Trust Deed dated 15 April 1993. The initial size of the open-ended Fund was 100 million units. The size was subsequently increased to 300 million units on 2 October 1997 (from 200 million units approved earlier on 13 January 1995). Summary of Company's financial position.

	Dec. 1993	Dec. 1994	Dec. 1995	Dec. 1996	Dec. 1997
Shareholders' fund (RM'000)	2,082	4,333	5,147	5,199	5,105
Pretax profit (RM'000)	121	3,371	1,343	78	(1,000)

The Board of Directors of PAB Unit Trust Management Berhad consists of four members; a Chairman Ybhg Jen (B) Tan Sri Dato' Zain Hashim, YM Raja Dato' Aman Ahmad and two independent members Ybhg Tan Sri Datuk Chang Min Tat and Ybhg Tan Sri Dr Balachandra Chakkingal Sekhar. The Board of Directors meets once in every two months to give and set policy direction to the Management Company as well as to review the performance of the Fund.

Besides the Board of Directors, the company also has a committee to oversee and set policy for its investment activities. The Investment Committee consists of five members; namely YM Raja Dato' Aman Ahmad, Yu Choong Keong, Abu Bakar Mohamad, Tan Sri Datuk Chang Min Tat and Brig. Jen. (b) Abdullah Omar, who represents the company.

The Investment Committee meets once a month. This frequency is to meet the Security Commission requirements, which states that the meeting of Investment Committee of the unit trust fund should meet at least once a month.

Overall the functions of Investment Committee are as follows:

1. To set investment philosophy for Amanah Saham PHB which is a medium to long term investment suitable for risk adverse investment.
2. To act as a 'watch dog' for the fund management team – that is to ensure that the fund managers will not breach the trading limit set unto them by the committee.
3. To scrutinize the managers so that they would only trade with authorized stockbrokers approved by the Board of Directors.

The Investment Committee lays out strict procedures as to the management of the trust funds. The committee stipulates that if any investment in KLSE goes down by more than 20% then the fund manager must take all necessary steps to force sell the counters and to recover the remaining balance.

The fund managers are allowed only to purchase approved sectors and counters. They are definitely not allowed to purchase any shares or counters that are not approved for. As to other means of investment, as in derivative securities, prior approval is required before any decisions being made.

Tan Sri Datuk Chang Min Tat is the only independent member in the committee. The Securities Commissions requires independent members to be at least 1/3 (one-third) of the total members. The independent member is supposed to represent interest of the public. Other members in the committee are directly related to the bank by way of employment. Currently Amanah Saham PHB (ASPHB) has no cash to invest in stock market since approximately 90% of total fund is already in the market. The ASPHB records an unrealized loss of RM50 million or 70% of total investment as at 30 April 1998.

En. Najib Hussin commented that the Investment Committee does not enforce unto managers the cut loss policy as per “ASPHB Trading Procedures” which was written and made into standard of operating procedures in 1994. “If the committee



is just a mere rubber stamp committee, then it would fail to dictate managers on what stocks to buy and to avoid”, said En. Najib Hussin. “Furthermore the composition of committee members lacks professionals from investment fields independent from the bank. Tan Sri Datuk Chang Min Tat was an ex-Supreme Court judge and has no prior experience in financial sectors. Yu Choong Keong and Abu Bakar Mohamad are full time employees of the bank and sit on the committee on directive from the bank”, he added.

As usual, the Acting CEO makes decisions on the buying and selling of shares in market. He spends most of his time in front of share terminal and leaves alone other operational matters to respective heads of departments. The company is divided into four departments - namely; investment department, operations department, finance department and marketing department. Please refer to Appendix 1 for organizational structure.

From 1993, the company had had 2 full-time head of investment but both left after disputes with CEO. In the “ASPHB Trading Procedures” manual, the CEO is supposed to review the dealings done by the head of investment, but since the CEO himself does the trading only investment committee can overwrite him. According to Zurina Ismail, the Head of Operations, since the CEO busy trading, other management issues are being put aside and no concrete programs are being developed for marketing, operation and strategic planning for the company.

In 1993, the company appointed Raja Amir as Head of Investment, but he left the company in 1995 to join another investment company under Renong group. After he left, no new investment manager was recruited and Wan Ali Wan Abdullah assumed the investment manager responsibilities as well as the Chief Executive Officer. On May 1997, the company appointed Zamzuri Mohd Ali as investment manager after a proposal made by Mr. Yu Choong Keong. His appointment was terminated in July the same year after the Chief Executive Officer and Brig. Jen. (b) Abdullah Omar (then was a Senior Manager) found that he “warehoused” 5 lots of NBT shares. The offense was found when he was absent from office under medical reason. When Brig. Jen. (b) Abdullah Omar takes over as Acting Chief Executive Officer, he runs the investment department and assumes the investment manager responsibilities. According to him, he would not appoint any new investment manager in near future in order to reduce operating cost. Normal market salary rate for a good investment manager is around RM8,000.00 to RM10,000.00 excluding other benefits.

### **The Fund Managed – Amanah Saham PHB**

PHB Unit Trust Management Berhad currently manages a balanced growth fund called Amanah Saham PHB. The fund was launched in April 1993. The fund investment operations are conducted in house by a team headed by Brig. Jen (b) Abdullah Omar. He is assisted by Portfolio Manager – Najib Hussin, who holds a

degree and obtains his early exposures in investment from various stockbroking houses, two Senior Investment analysts – Azlan Hashim and Woo Poey Suan and Head Finance & Accounts – Tan Wei Kuan. The team reports to an Investment Committee of whom YM Raja Dato’ Aman Ahmad is the chairman. Other committee members are Tan Sri Datuk Chang Min Tat, who was a former Federal Court judge, Mr. Yu Choong Cheong, who is a General Manager – Investment of LTAT and Abu Bakar Mohamed, who is a General Manager Treasury of Perwira Affin Bank Berhad.

The prospectus states that the objective of Amanah Saham PHB is to reward unitholders with reasonable rate of return on income and to realize capital growth potential of investments held. It will thus balance its investment portfolio between assets which are expected to increase in capital value and those that will generate consistent income to enable regular distribution of dividends to unitholders. As at 31 March 1998, there are 50 trust funds under same category as Amanah Saham PHB. Please refer Appendix 2 for detail.

Amanah Saham PHB in an equity unit trust which provides a convenient means of investing in a wide range of stocks and money market instruments. Amanah Saham PHB is opened to the members of the public of 18 years and above and institution or corporate bodies, who wish to invest for the medium to long term

period with the help of full-time professional fund managers, and is not suitable for investors seeking short-term gain.

The objective of Amanah Saham PHB is to reward Unitholders with a reasonable rate of return on income to realize capital growth. In pursuit of this objective, Amanah Saham PHB will balance its investment portfolio between assets which are expected to increase in capital value and those that will generate consistent income to enable regular distribution of dividends to Unitholders. Units can be purchased by completing an Application Form available for free and submit the completed form together with the accompanying cheque or cash for payment on application to the registered office of PAB Unit Trust Management Berhad or the nearest Perwira Affin Bank branch, Affin Berhad and Inter-finance Berhad. The Manager's Selling and Buying are quoted in the local newspapers daily. It is not a policy of the Management Company to guarantee dividend to the Unitholders. However, the dividend distribution has been made regularly in the past financial years.

Details of income distributions made by the Trust since its date of incorporation are set out below:-

<b>Date of distribution</b>	<b>NAV (before dividend) sen</b>	<b>NAV (after dividend) sen</b>	<b>Gross dividend per unit (sen)</b>
31 October 1993	1.18	1.11	(note 1) 6.7
30 April 1994	1.05	0.96	8.5
31 October 1994	0.99	0.94	(note 1) 5.0
30 April 1995	0.81	0.77	5.0

30 April 1996	0.88	0.82	7.1
30 April 1997	0.73	0.72	2.1

*Note 1*

The dividends distributed are in the form of new units at the rate of one (1) unit for every fifteen (15) units held and one (1) unit for every twenty (20) units held as at 31 October 1994 and 31 October 1994 respectively. The company currently manages one fund; namely Amanah Saham PHB. Financial data of the fund managed (i.e. Amanah Saham PHB) for the previous years since launching showed that dividend paid-out ranged from 8.5% to 2.1%.

### **The Unit Trusts Industry**

A unit trust is a fund that pools the monies of numerous investors and invests these monies in the stock market or other permitted investment instruments. Investors who invest in a unit trust scheme enjoy numerous benefits. Through pooling of resources, the Managers are able to invest in a wider spread of investments that enable risks to be diversified. The Manager is obliged to provide active professional management of the Fund to ensure reasonable returns to investors. Decisions of investment are based on extensive market research and analysis. The Manager is obligated under the Deed of Trust to repurchase units from investors at the quoted buying prices on the following business day.

The majority of collective investment funds available in Malaysia are unit trusts, a common investment vehicle which has been in existence in Malaysia since 1960. However, it was only in 1985, with the launching of the Amanah Saham Nasional (a national unit trust fund) by the government, that the general public became aware of, and accepted, this open-ended fund as an alternative to traditional savings. The unit trust industry has expanded rapidly in recent years. As at 31 March 1998, as per stated in Appendix 3, there were a total of 91 approved funds, including Islamic unit trusts and state unit trusts. Of these, 88 are offered by private unit trust management companies.

The funds management industry was entering a new era. There had been an impressive development as the number of unit trust companies increased from 5 in 1980 to 30 in 1997, while unit trust funds grew from 26 to 91 over the same period. Dr. Barjoyai Bardai reported in The Edge – edition 8/96 that, *"the unit trust managers now control a total fund size of RM 47.97 billion, a fourfold increase from 1980, when it accounted for only RM12.5 billion. The total fund generated by the Malaysian unit trust industry is only 7% of the total market capitalization (RM650 billion – August 1996). In Thailand it is 16% while in India it is 48%".*<sup>1</sup> The potential for unit trust industry in Malaysia is big. As for PAB Unit Trust Management Berhad, it has strong financial backing from a financial institution. Amanah Saham PHB is now rank fifth in performance over

the last 3 month from December 1997, according to Micropal report, Hong Kong based rating agency.

Generally, the collapse in the local stock market has resulted in a disappointing year for unit trust. The entry barriers in unit trust industry are well regulated, and that only license financial institution can operate. An average fund size of RM 200 million is unlikely to be lucrative enough to warrant setting up a unit trust company. Normally a unit trust company makes its profit from commissions earn from the buying and selling of the unit trust and also a small percentage from overall capital gain.

While the development of the unit trust industry in Malaysia is still relatively young, the industry can be expected to take off in the years ahead in the light of several positive developments within the industry. Such developments include, the Revised Guidelines on Unit Trust Funds issued by the Securities Commission, The setting up of the Federation of Malaysian Unit Trust Managers, the emphasis on unit trusts that are based on Islamic principles to provide wider avenue for Muslim investors to invest in the capital market and the launching of several State unit trust funds.

Malaysian capital market is becoming more sophisticated, the needs of the investing public would also increase accordingly and there will be growing demand

for alternative investment avenues. In this respect, unit trust industry will play an important role by coming out with different types of funds to suit the various needs of investors. Another development that will take place in the industry in the near future is the listing of on Kuala Lumpur Stock Exchange of investment management companies. Shares of the companies will be traded and therefore will increase market capitalization of the Stock Exchange. Such listing will also widen the choices available to investors. Prospects for well managed unit trust industry look very bright in the years ahead. They carry within their portfolio net asset values in aggregate exceeding RM60 billion as of June 1997 and this figure is set to leap frog in the next two to three years. The range of bumiputra unit is also expanding with the setting up of more state unit trust. The growing popularity of this form of investment is clearly evident. The last five years (1992 - 1996) are unusual years of boom for the Malaysian stock market so unit trust funds have performed well. Most unit trust companies have declared dividends exceeding 10% per annum, which is above what fixed deposits have done (4% to 5.5%). Saving rate is lower by comparison (below 4%) but interest on saving below RM100,000 is tax-free. Still they pale by contrast to unit trust returns, not to mention that unit trust also pay bonus units which means the original capital has appreciated in value.

Mutual fund or unit trust fund in Malaysia had a relatively late start as compared with other nations. Its history is rather brief. Federation of Malaysia Unit Trust



Fund Managers (FMUTM) stated in its book that "*Mutual funds were introduced into Malaysia only in the late 1950's. Malaysia saw the birth of its first mutual fund company - Malayan Unit Trusts Sendirian Berhad on 15<sup>th</sup> August 1959. The five pioneers unit trust companies are: Malayan Unit Trusts Sendirian Berhad, Asia Unit Trusts Berhad, Amanah Saham MARA Berhad, MIC Unit Trusts Berhad, Kuala Lumpur Mutual Fund Berhad, and Amanah Saham Nasional*".<sup>2</sup>

In the Fourth Malaysia Plan, industrialization has been highlighted as one of the means of improving the national income. Unit trust funds can complement the policies of the Malaysian Government to channel more funds to industry. Small investors individually find it difficult to have a diversified stake in big industry. Unit trust funds will be able to gather these investors together and to channel their funds to industry through the stock market. With the additional source of funds, industry will be able to increase production capacity and productivity and thereby directly benefit the national economy.

Kuala Lumpur Mutual Fund Berhad in its book - Quick Guide To Unit Trust states that "*closed-end unit trust fund or mutual funds dated back to the early nineteenth century. The first closed-end fund on record is Societe General de Belgique, founded by King William of Belgium in the year 1822. During the 1850's, the idea spread to France and the earliest French closed-end unit trust fund began in 1852. The movement expanded into United Kingdom and Scotland*